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Alberta eyes 'liquidity package' for oilpatch from Ottawa as OPEC+ deal underwhelms

Hopes for as much as $30 billion to help sector survive double hit

Alberta Energy Minister Sonya Savage and Premier Jason Kenney see a need for $20 billion to $30 billion injected into the province's oil sector.*Ian Kucerak/Postmedia*

Alberta’s Minister of Energy Sonya Savage expects the federal government to announce a “liquidity package” this week that would help oil and gas companies in her province survive through the severe price collapse caused by the COVID-19 global pandemic.

“I know they’re working on something that’s quite significant,” the minster told the Financial Post on Monday. “Numbers that we’ve looked at, that the (Alberta) premier (Jason Kenney) has looked at, is we need $20 billion to $30 billion coming into our (oil and) gas sector, inclusive of the service sector and the drillers — that’s the kind of program were looking at if we’re going to get to the other side.”

Describing it as an unprecedented situation, Savage said she has been in close contact with federal Minister of Finance Bill Morneau as his office attempts to devise a package that will provide credit and liquidity to financially stretched companies in her province.

She added the federal government is still studying the best way to get “credit” and liquidity to companies with “numerous” options under consideration.

“Obviously it’s pretty complex,” Savage said.

Over the weekend, Saudi Arabia, Russia, the U.S. and other major oil producing countries known as OPEC+ struck an historic agreement to cut global production by about 9.7 million barrels per day in the face of a drastic decline in demand for oil resulting from the pandemic.

Meanwhile, G20 nations pledged to cut about 3.7 million bpd, while various countries are planning to increase oil purchases for their strategic reserves, according to comments that Saudi oil minister Prince Abdulaziz bin Salman made to a group of journalists.

While Canada did not commit to any oil production cuts as part of the global agreement, analysts said low prices have already forced Canadian producers to make cuts and more reductions are coming.

The G20 Energy Ministers, a group that includes Canada, said it would convene a focus group going forward to respond to changes in the energy market. It left open details of how the focus group would operate.

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News of the global cuts provided a ray of hope for the Canadian oil sector, which has been battered in the past month or so by a decline in demand and a simultaneous price war between Saudi Arabia and Russia that increased supply.

Many analysts have said a recovery is still months away as the cuts are not enough to offset the demand destruction caused by COVID-19, or the significant backlog of oil inventory that has already built up.

Savage and others estimate that oil demand has dropped by as much as 30 per cent because of the global pandemic, as commuting across much of the world has ceased entirely, and industrial output has declined significantly.

Western Canadian Select Crude barely budged on Monday, sitting at US$4.42 per barrel, down about 89 per cent from early January when it traded above US$40. At its lowest price since April 1, U.S. West Texas Intermediate (WTI) crude slipped 1.5 per cent, to close at US$22.41.

Jeffrey Craig, an analyst at ***Veritas Investment Research Group***, said the production cuts have not changed spot oil prices very much because "we're still massively oversupplied" for at least several months. But he said oil futures — options to buy oil for a set date in the future — suggest a recovery could begin towards the end of the year.

"The futures market is telling us this is positive for oil, that it will help stem the pain going into the latter half of the year," he said, "but it doesn't help today's problem, it sort of limits the downside."

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In the meantime, Bank of America analysts predicted a "price-driven supply decline across North and South America" of up to four million barrels per day.

In Canada, oilsands mines, where fixed costs tend to be higher, and where operations can be stopped and started more easily than conventional or shale oil wells, are likely the first projects that will come offline.

Vancouver-based Teck Resources Ltd., which owns part of the Fort Hills oilsands mine in Alberta, said in March that operations were reduced and the entire project could shut down. Suncor Energy Inc., however, which operates the mine, has not made any public comments indicating plans to shut the mine down are imminent.

Chris Cox, an analyst with Raymond James Ltd., told the Financial Post he expects Canadian oil producers will cut about 1.2 million to 1.5 million barrels per day in coming months — around 30 per cent of Canadian production last year.

Cox said it is unlikely that any banks would force Canadian oil producers into bankruptcy by calling in loans.

“Quite frankly, I don’t think the banks want to own these assets themselves,” Cox said.

The longer this oil price duration lasts the more this issue grows in significance

Chris Cox, analyst, Raymond James Ltd.

Still, he wrote that the oil price depression will have long-term consequences, as oil producers will have less cash to reinvest in their assets when prices recover. That means it will take longer for the sector to bounce back.

“The longer this oil price duration lasts,” and West Texas Intermediate oil trades below US$40 per barrel, the more this issue grows in significance, Cox said.

But the cuts will stem the level of inventory build up, and also signal that producers are interested in addressing the market imbalance.

Alberta Premiere Jason Kenney tweeted on Sunday that he was glad to see “sanity” return to oil markets.

Kenney also blamed OPEC+ for starting “the fire” since Russia and Saudi Arabia became embroiled in a price war in early March that increased global oil supply even as COVID-19 lead to travel restrictions and other measures that created a demand contraction.

“Many challenging months ahead with very low demand & huge inventories, but at least now there is path to recovery,” Kenney tweeted.

Citibank analyst Ed Morse said cuts are “unlikely to prevent prices from sliding” more this quarter, but he welcomed them nonetheless as positive news. The Wall Street bank revised its oil price forecast upward by US$10 to US$35 for Brent crude in the third quarter, and US$45 in the fourth quarter, up from US$29.

TD Bank also revised its outlook for oil prices in the fourth quarter to US$42 per barrel, noting that the supply cuts could be supportive in the medium term.

“Canada’s energy sector and its oil-producing provinces are struggling with slashed capital spending, production shut-ins, and dampened incomes,” wrote Omar Abdelrahman, economist at TD, in a note to clients. “OPEC+’s agreement should pave the way for a return to a more supportive price environment sooner than previously feared.”